GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:2792
ANSWERED ON:19.12.2003
FINANCIAL CRISIS IN IDBI
ALE NARENDRA

Will the Minister of FINANCE be pleased to state:

(a) whether the Industrial Development Bank of India (IDBI) has been facing financial crisis for the last few years;

(b) If so, the details alongwith the reasons therefor;

(c) the alternative measures adopted by IDBI to improve its financial position;

(d) the number of bogus companies as well as those which have since been closed to whom loans were provided by IDBI leading to financial crisis, State-wise; and

(e) the steps taken for recovery of outstanding loans?

Answer

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI ANANDRAO V. ADSUL)

(a) & (b): IDBI has not suffered any losses to date.However, the model of development banking has come under strain. The flow of concessional funds to IDBI from the National Industrial Credit (Long Term Operations) Fund maintained by RBI dried up. In tune with the recommendations of the Committee on Financial System (The First Narasimham Committee − 1991), the system of allocating quota to the Development Financial Institution for issuance of SLR Bonds was dismantled. The enlarged role of banks coupled with their relatively lower cost of funds, caused pressure on the operating margin of IDBI also.

(c): The IDBI has taken measures for reducing the growing incidence of Non- Performing Assets (NPAs)IDBI has initiated concerted moves to improve overall asset quality by exercising selectivity in sanctioning proposals alongwith reduction in average cost of funds through prepayment/restructuring of existing high cost liabilities (with partial government support) and greater accent on retail resource mobilization. The Industrial Development Bank (Transfer ofUndertaking and Repeal) Bill to provide for the transfer and vesting of the undertaking of the IDBI to, and in, the company to be formed and registered as aCompany under the Companies Act, 1956 would enable IDBI to carry on banking business and would provide long term sustainability for IDBI`s operations.

(d) & (e) : IDBI has not sanctioned assistance to bogus companies.IDBI, inter alia, undertakes a rigorous check of the antecedents of the promoters before sanctioning assistance. Nevertheless, some companies assisted by it have subsequently closed down due to a combination of environmental, industry specific and unit specific factors. In order to tackle the problem of NPAs, the IDBI is taking recourse to the Securitisation and Reconstruction of FinancialAssets and Enforcement of Security Interest Act, 2002, and DRTs/Courts. The other initiatives taken by IDBI to reduce the stock of NPAs include recovery ofdues through Negotiated/One-Time Settlements (OTS), restructuring ofcorporate debts under the Corporate Debt Restructuring (CDR) mechanism andmore focused efforts on loan recovery.